

Opinions Of Counsel After TC Heartland

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Prior to the U.S. Supreme Court's recent decisions in *Halo Electronics Inc. v. Pulse Electronics Inc.*[1] and *TC Heartland LLC v. Kraft Foods Group Brands LLC*,[2] opinions of counsel regarding patent infringement and validity, in the face of an assertion of infringement were often eschewed as unnecessary or impractical. On the one hand, opinions of counsel could be used as evidence of willful infringement, and potentially raised questions with respect to attorney-client privilege and work product privilege if used defensively. On the other hand, patent owners had little incentive to give detailed allegations of infringement and accused infringers could reasonably rely on litigation counsel to combat a charge of willfulness. The court's decisions in *Halo* and *TC Heartland*, when combined, have drastically changed this calculus and have reemphasized the importance of opinions of counsel.

In patent cases, a party may be liable for treble damages if the party's infringement was "willful." In *Halo*, the Supreme Court directed courts to look only at the subjective intent of an accused infringer when determining willfulness (versus objective defenses)[3] and lowered the burden of proof in proving willful infringement to a preponderance of the evidence.[4]

Yet after *Halo*, patent owners continue to have little incentive to strengthen the claims in notice letters. Thus, patent owners, and most notably, nonpracticing entities, continued to send vague notice letters to potential defendants after *Halo*. This is because a clear statement that a patent owner believes a party is infringing their patent increases the likelihood that the patent owner will be subject to a declaratory judgment action; potentially in a venue outside of the patent owner's control (i.e., a venue friendly to the accused infringer). Conversely, a letter simply informing a potential defendant of the existence of the patent owner's patents would likely be enough to satisfy the low subjective burden of proof after *Halo*.

However, the court's recent decision in *TC Heartland* now limits the choices of venues for patent infringement actions under 28 U.S.C. § 1400(b). In the *TC Heartland* decision, the court held that a domestic corporation "resides" only in its state of incorporation or where the accused infringer "has a regular and established place of business" in the venue and has committed acts of infringement therein for purposes of the patent venue statute.[5] The court rejected the position of the Federal Circuit that the general venue statute supplies the definition of "resides" in the patent venue statute and thus allows



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a domestic corporation to be deemed to reside in any judicial district in which the corporation is subject to the court's personal jurisdiction.[6] As a result, the TC Heartland decision reduces (1) the likelihood of forum shopping, (2) restricts the ability of the plaintiff to file complaints in plaintiff-friendly venues, and (3) affects the ability of the defendant to file for a declaratory judgment in defendant-friendly venues. It is important to note however that TC Heartland did not address the second prong of § 1400(b). That is, an accused infringer can still be subject to venue if the accused infringer "has a regular and established place of business" in the venue and has committed acts of infringement therein.

While Halo was arguably patent owner-friendly, TC Heartland is unquestionably defendant-friendly. While the court does not address specific venues, it is clear that the court's decision primarily affects one district: the Eastern District of Texas, a district popular for its friendliness to plaintiffs and nonpracticing entities. While TC Heartland may not have significant effects on the largest entities that have regular and established places of business in districts such as the Eastern District, it will likely impact those smaller and mid-sized entities that are frequently subject to infringement actions in that district.

However, the boon in venue challenges for defendants conversely reduces the previously given security from detailed notice letters and thus removes a major counterargument to a claim of willful infringement. That is, under Halo, the "subjective intent" of an accused infringer will likely be easier to prove given that a defendant had detailed knowledge of the alleged infringement. TC Heartland further emboldens patent owners by incentivizing the transmission of detailed notice letters in order to begin the accrual of damages months, or years, prior to actually filing suit.

Given that patent owners are no longer able to fully control venue, the restraint that patent owners previously exercised in preserving their right to sue in plaintiff-friendly districts is effectively obviated. Now, patent owners can once again recover presuit damages (enabled by Halo's lower standard) that they previously had to forego prior to TC Heartland, as they no longer are required to exchange pre-filing damages for a higher probability of litigation success secured by protecting their right to sue in, and actually suing in, plaintiff-friendly districts like the Eastern District of Texas.

As notice letters from nonpracticing entities and other patent owners are likely to become much more specific in putting alleged infringers on notice, likely much earlier than before, the response and actions of potential defendants can have significant impact on the risk of enhanced damages — especially in view of the decision in Halo.

Thus, seeking informed opinion of counsel may be extremely helpful in avoiding enhanced damages under the more lenient Halo standard. An opinion of counsel in response to a notice letter from a patent owner can potentially defeat a determination of subjective willfulness and avoid the characterization of willful, wanton, malicious, bad-faith, deliberate, consciously wrongful, flagrant, or "pirate-like" behavior. Opinions of counsel should address any new developments relevant to the alleged infringement in a timely manner, especially when new questions of infringement are raised with specificity, in the wake of the TC Heartland decision.

It is important to note that opinions of counsel are not required to avoid an enhanced damages case.[7] However, there are tradeoffs between risks and benefits in not seeking opinions of counsel. These tradeoffs are amplified by the likelihood of entities receiving more detailed notice letters after the decision in TC Heartland.

On one hand, Congress left the potential infringer to decide whether to obtain opinions of counsel in view of the risk. As pointed out by Justice Stephen Breyer in the concurring opinion in Halo, the Patent

Act explicitly specifies that “failure of an infringer to obtain the advice of counsel ... may not be used to prove that the accused infringer willfully infringed.”[8] Instead of seeking an opinion of counsel, an owner of a small firm, or a scientist, engineer, or technician working there, might (without being “wanton” or “reckless”) reasonably determine that its product does not infringe a particular patent, or that the patent is probably invalid.

On the other hand, the lack of legal expertise in analyzing patent infringement claims and defenses may lead a defendant to a defense that may fail to be deemed “reasonable” in a subjective willfulness inquiry under Halo and render the effort by the defendant to appear to be “wanton” or “reckless.” Since the error cannot be corrected by an improved defense refined during litigation, the risk of enhanced damages resulting from not seeking an opinion of counsel increases, in view of the Halo decision. Thus, when the reasonableness of a noninfringement or invalidity defense is not readily assessable, an eventual failure of the prelitigation defense to be deemed “reasonable” during litigation can increase the risk of a finding of subjective willfulness for infringement, and the sanction of enhanced damages. When the risk is high, opinions of counsel, and the time and expense that usually accompany them, may be a better alternative.

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[1] Halo Elecs., Inc. v. Pulse Elecs., Inc., 136 S. Ct. 1923 (2016)

[2] TC Heartland LLC v. Kraft Foods Grp. Brands LLC, 197 L. Ed. 2d 816 (2017)

[3] Halo Elecs., Inc. 136 S. Ct. at 1932–34.

[4] Id. at 1934.

[5] TC Heartland, 197 L. Ed. 2d at 820.

[6] Id. at 824–825.

[7] See e.g., Erfindergemeinschaft UroPep GbR v. Eli Lilly & Co., No. 2:15-CV-1202-WCB, 2017 U.S. Dist. LEXIS 75517, at *3-4 (E.D. Tex. May 18, 2017)

[8] Halo Elecs., 136 S. Ct. at 1936 (J. Breyer concurring).